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To: The Honorable Marcus R. Oshiro, Chair
and Members of the House Committee on Finance

Date: Tuesday, February 28, 2012

Time: 11:00 A.M.

Place: Conference Room 308, State Capitol

From: Frederick D. Pablo, Director
Department of Taxation

Re: H.B. No. 2262 H. D. 1, Relating to Energy

The Department of Taxation (Department) appreciates the intent of H.B. No. 2262 H.D. 1 and offers the following information and comments for your consideration.

This measure creates a new tax credit for the production of agricultural feedstock for use in a renewable fuel production facility. The measure also amends the existing ethanol production facility tax credit to cover facilities that produce other renewable fuels.

This measure contains several points that need to be clarified prior to adoption. As written, the measure does not designate when the renewable fuel feedstock credit may be properly claimed, which will make the credit extremely difficult to administer, particularly as pertains to the recapture provision. Also, the definition of "operational expenditures" currently in the measure is overly broad, which may lead to confusion among taxpayers as to what expenses may be legitimately claimed. The Department also notes that the measure does not indicate whether or not the credit may be claimed beyond the two years specifically mentioned; if this credit is to be limited to two years the language of the measure should reflect that limitation.

The Department additionally notes that, as a general comment regarding both the tax credits proposed in this measure, tax credits with an aggregate cap are extremely difficult to administer, and result in considerable uncertainty among taxpayers regarding their eligibility for the credits year-to-year. An unintended consequence of this type of cap may be unbalanced or unfair distribution of the credit.

Thank you for the opportunity to provide comments.



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HOUSE COMMITTEE ON FINANCE

February 28, 2012, 11:00 A.M.

Room 308

(Testimony is 1 page long)

TESTIMONY IN SUPPORT OF HB 2262 HD1, SUGGESTED AMENDMENT

Chair Oshiro and members of the Committee:

The Blue Planet Foundation supports HB 2262 HD1, a measure that expands the ethanol facility tax credit to include other liquid biofuels and makes other amendments to the credit. This policy will provide greater support for Hawaii's diverse biofuel production infrastructure.

Biofuels will likely play a major role in Hawaii's clean energy future—particularly as a substitute for petroleum-based transportation fuels. Transportation fuels in Hawai'i can be made from renewable resources, such as biomass in various forms, algae, and waste products. These materials are neither as scarce nor as expensive as crude oil. Even more importantly, these materials are available here. Hawai'i should set a clear course for a steady, incremental transition to renewable fuels including local and sustainable biofuels.

SUGGESTED AMENDMENT

Blue Planet respectfully requests that HB 2262 HD1 be amended so the credit applies to biofuel facilities utilizing Hawaii-grown and produced feedstocks only. This policy should encourage Hawaii's clean, local, renewable energy industries. We want to avoid a distorted outcome where oil crops are being shipped across the Pacific (from potentially destructive sources, like former rainforest land) for use in Hawai'i. Please ensure that this policy does not simply replace one import (oil) with another one (imported oil crops).

Thank you for the opportunity to testify.